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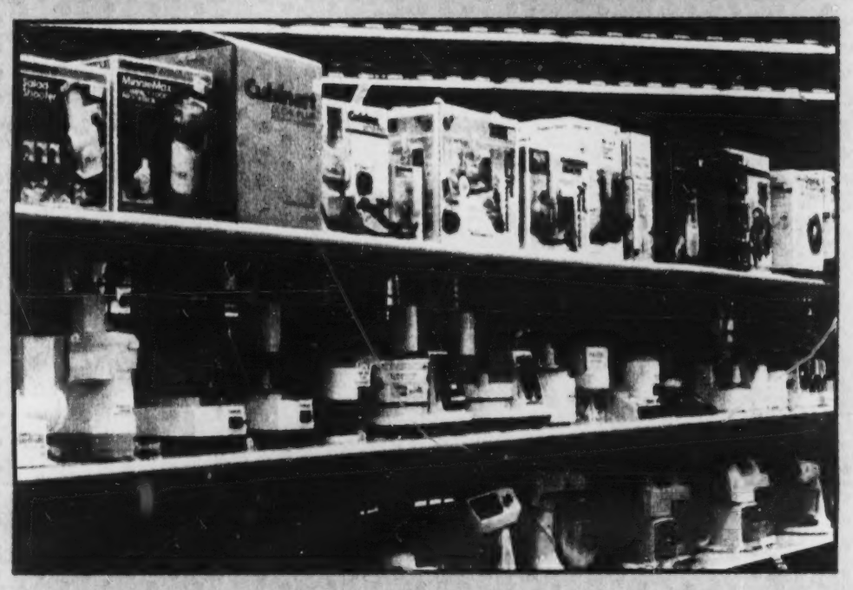
Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

VOL. 28, NO. 1 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $2 per copy | January 9, 1989

It's Showtime!



WINTER CE & HOUSEWARES SHOWS: Expanded coverage includes previews, a profile of Silo (top), the premiere of Home Office Merchandising, exclusive consumer research on small electrics (above at Save Rite), new products, plus much more. Don't miss it! (DSN photos)

Sam's Gains Ohio Entry; Acquires 3 Price Savers

By Richard C. Halverson

CINCINNATI — Kroger, the $17.7 billion food and convenience store retailer based here, has agreed to sell to Wal-Mart three Price Savers warehouses in the Cincinnati market, giving Wal-Mart's Sam's Wholesale Club a quick entry into a new state, Ohio.

Utah-Based Club To Focus on West

The nearly $4 billion wholesale club division of the Bentonville, Ark.-based discount chain plans to add new warehouse clubs in Dayton and Toledo in 1989.

The sale also means that Price Savers, based in Salt Lake City, is scrapping plans to expand into the East, and instead will concentrate its immediate growth in the western United States.

"Geographically, with just three stores, Ohio was more difficult for us," Price Savers president Thomas R. Grimm said.

Price Savers will open three more California units this fall. One will be in San Diego, home territory of the Price Club, and the other two in Sacramento, a new Northern California market, Grimm

(Continued on page 113)

One of three Cincinnati Price Savers bought by Sam's Wholesale Club: Deal gives Sam's quick foothold in Ohio and allows Price Savers to focus attention on its Western expansion.

How Best Was Bought:

The Inside Story of a Major Takeover

By Arthur Markowitz
Nationwide DSN Report

The leveraged buyout of Best Products has been a retailing version of a Greek drama—a succession of acts that inexorably lead to the concluding scene.

News Analysis

DSN has been able to reconstruct the play of events that resulted in Adler & Shaykin's $1.1 billion LBO of Best—due to be legally completed this month—from the cataloger's filing with the Securities and Exchange Commission and other sources that didn't want to be identified.

Best's fate was sealed on Aug. 10, 1988, when the Prospect Group, a New York investment firm, notified the SEC in a 13D filing that it owned almost 10 percent of the cataloger's stock and that it might be interested in taking over the company.

When Prospect disclosed its filing, Robert E.R. Huntley, then Best's chairman and chief executive officer, wryly commented that the cataloger was now in play. The Prospect Group's action had moved the takeover interest from behind the scenes to stage center.

The Prospect Group, which began accumulating Best stock in June 1988, wasn't the first

(Continued on page 126)

Wall to Wall Sound & Video Pushes to Corner Key Markets

By Peter Hisey

CINNAMINSON, N.J. — Faced with what one of its executives termed "the post-VCR-explosion era" in the consumer electronics market, Wall to Wall Sound & Video, the audio/video specialty chain based here, has expanded its superstore concept, instituted an advanced training program for store personnel, and added more upscale sources to its product mix.

The chain has also undertaken an aggressive expansion campaign aimed at solidifying its presence in several key markets.

According to Jerome Shulman, chairman and chief executive officer, Wall to Wall has opened 19 stores—eight of which are 15,000-square-foot to 18,000-square-foot superstores—since last March. Several more are planned before fiscal 1989 ends in February.

Three stores were added to the northern New York market, in the Schenectady/Syracuse area. Three have opened and two more are expected to strengthen Wall to Wall's presence in the Washington, D.C., market. Additional stores were opened in Philadelphia (four superstores) and southern New Jersey (one superstore and one mall outlet).

"Our strategy is to fill in the holes in our traditional markets and strengthen our market presence," Shulman said, noting that the company will be very careful about approaching new markets.

(Continued on page 112)

For Stein Mart, Carolina is Finer in 1989

JACKSONVILLE, Fla. — Stein Mart is expanding into the Carolinas in 1989, *Discount Store News* has learned.

Specializing in upscale apparel and soft home at considerable discounts, Stein Mart will open in Greenville, S.C., this spring and Charlotte, N.C., in the fall.

Stein Mart intends to open at least four stores this fall, said Mason Allen, general merchandise manager, but the markets are undetermined for all but Charlotte. A Stein Mart source previously said the chain will focus expansion efforts in the Southeast.

In 1988, Stein Mart expanded further into Texas, opening a second store in San Antonio and another in Austin. At year-end, Stein Mart operated 27 stores, plus a clearance store here in Jacksonville.

As a private, family-owned company, Stein Mart refuses to disclose sales and profits.

But, according to financial sources, Stein Mart is a profitable and growing chain. Stein Mart earned about $6 million in pretax income on sales of close to $107 million for the 11

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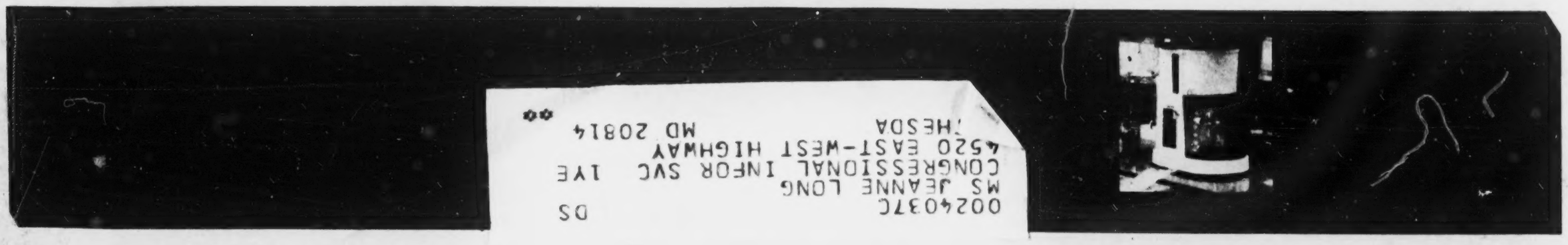

MARKETWATCH

Sol Price to Step Down from Club Board

SAN DIEGO — Although he will remain "very much involved with the company," Price Club founder Sol Price will not seek re-election in January as a director and chairman of the board. As reported in the membership warehouser's annual report, Price decided to "step back" and let his son Robert, president and ceo, take on the chairman title. The company also said its first and second quarter profits will probably be adversely affected by the acquisition of grocery wholesaler A.M. Lewis and the start-up costs of a manufacturing facility in National City, Calif.

Pic 'N' Save Enters N.Y., Buys Job Lot

CARSON, Calif. — Closeout specialist Pic 'N' Save, based here, has completed its acquisition of 15-store Job Lot Trading in New York from Zilber Ltd. for an undisclosed amount. The stores, with sales volume over $35 million, will continue to operate under the Job Lot name, while giving 141-store Pic 'N' Save its first entry into the major metropolitan market.

Mays Clears Legal Hurdle in Sale of Unit

BROOKLYN, N.Y. — The J.W. Mays board, which has determined to cease retail operations in the company's three existing stores, said it entered into a stipulation and order with the preliminary executors of the estate of Sol Goldman, permitting the sale of its 14th Street Manhattan property to be consummated. The estate of Sol Goldman holds a 23 percent interest in Mays. The sale of the 14th Street unit is scheduled for later this month.

Miller Becomes 14th K mart Director

TROY, Mich. — Richard S. Miller has been elected to K mart Corp.'s board of directors, an addition that brings the number of board members to 14. Miller, 48, a 28-year veteran of K mart, has been executive vice president, K mart stores, since April 1988. He is responsible for all merchandising activity and store operations. Miller has two subsidiaries, K mart Apparel Corp. and K mart Canada, reporting to him as well.

Trak Post Sales Gains; Haft Takes Reins

LANDOVER, Md. — Helped by the opening of seven stores in the third quarter and 24 in nine months, Trak Auto reported 14 percent sales gains over the year-earlier periods. For the third quarter ended Oct. 31, sales rose to $63.7 million and for the nine months, sales rose to $179.8 million. The chain also said that Robert Haft, president of the Dart Group, has become interim president and coo of Trak following the retirement of Ben S. Kovalsky.

Bradlees Takeover Attempt Prompts Suit

CAMDEN, N.J. — Several union locals representing Bradlees workers have sued the Haft family for unspecified damages, charging that its raid on the Stop & Shop Cos. has threatened 3,000 union jobs. After Herbert Haft and his son, Robert, attempted to take over Bradlees' parent in February, Stop & Shop management took the company private in a $1.23 billion leveraged buyout. To help pay down LBO debt, Stop & Shop is attempting to sell the 58-store Southern division of Bradlees. Hechinger, a Washington, D.C.-based home center chain, agreed to buy 47 (now cut to 33) of those stores, and the employees there will lose their union jobs. In a prepared statement, Robert Haft dismissed the class action suit, filed in a New Jersey state court, as an apparent publicity stunt. "We are not the owner of that company, and, obviously, we have nothing to do with their decision" to sell the Bradlees stores, Haft said.

Shopko to Open First California Unit

GREEN BAY, Wis. — ShopKo Stores will make its first entry into California next fall when the discounter opens a 94,000-square-foot site in Redding. ShopKo will find K mart already operating in Northern California and Target is expected to also join the area competition next year. Currently, ShopKo operates 87 stores in 11 states and plans to open at least 12 sites during 1989.

American Fare Leases to Music Store

TROY, Mich. — Handleman Co. has signed an agreement with American Fare for the leasing of space to be used for the operation of a retail prerecorded music and video store, which is expected to open Jan. 29 within the American Fare complex in Atlanta. It will be operated by Handleman's newly established subsidiary, Entertainment Zone Inc. The subsidiary is expected to operate leased departments within customers' stores as well as additional retail stores in the same format as the American Fare/Entertainment Zone arrangement.

Ward Slashes Everyday Prices; Still Disclaims 'Discounter' Label

CHICAGO — After initiating an everyday low price strategy for two departments more than a year ago, Montgomery Ward has extended the pricing policy companywide. But like Sears, which recently announced an everyday low price program, the 324-unit retailer does not want to be called a discount store.

"Montgomery Ward does not consider itself a discount retailer," said spokesman Chuck Thorne. "We consider ourselves a chain of value-driven specialty stores. We put a strong emphasis on customer service and a wide assortment of brand name merchandise at consistently low prices every day."

Montgomery Ward first introduced an everyday low price strategy in its refocused Auto Express automotives department in 1987. Last summer, that pricing strategy was extended to Electric Avenue, its consumer electronics and appliance department.

The retail chain rolled out the everyday low price strategy chainwide only recently, when the policy had "evolved" far enough to do so, said Thorne.

Ward made no formal announcement about its new pricing strategy but broke the news in holiday circulars which announced that Montgomery Ward reduced prices on 10,000 items, in "permanent price cuts."

These ads pledged to shoppers that brand names are "priced *so low—plus*, we guarantee we'll match any other store's ad sale prices."

In addition, the ads announced new in-store sales identification markers: triangles, which are placed on merchandise displays. Sales items are now identified in one of three ways:

- A yellow "Super Buy" triangle sale sign guarantees that Ward's will never price the items for less;
- A red "Sale" sign informs customers that merchandise is on sale for a limited time but if within 30 days of the ad the items are priced lower, the difference will be refunded;
- A green "Extra Value" triangle tells customers that if they find the item advertised anywhere within 30 days for less than Ward's price, the retailer will match that price.

Service Switches Stock to Big Board

NASHVILLE, Tenn. — In a move to increase investor awareness—and possible trading—of its stock, catalog-er Service Merchandise has moved the listing of its securities to the New York Stock Exchange from the over-the-counter market.

The step at the end of 1988 came as Service decided to close its remaining The Lingerie Store to concentrate operations on its core catalog showroom business. It could open as many as 18 new showrooms this year.

The cataloger has already announced plans for 11 new showrooms in 1989 and two replacement units. Besides its 317 showrooms, Service operates three Zimm's jewelry specialty stores and 11 Computer Shoppes.

Service is the only cataloger listed on the Big Board as two others, Best Products and Jewelcor, became privately held firms earlier in the year. The other public catalogers are either on the American Stock Exchange (L. Luria and Son) or the OTC market (W. Bell and Brendle's).

DSN Co-Sponsors Seminar at BTS

NEW YORK — In conjunction with the National Back-to-School Merchandise Show, which will be held Feb. 11 to 13 at New York's Jacob Javits Convention Center, *Discount Store News* will co-sponsor a free seminar on mass marketing trends in stationery and office supplies.

Titled "Market Update '89," the seminar will feature a roundtable discussion with five retailers: Larry Fine, vp, dmm, Jamesway Corp.; Steve Appel, founder/partner, Office World; John Kinzi, director of general merchandising, Drug Emporium; Dan McAllister, stationery buyer, Kerr Drug Stores; and Lance Clark, merchandise manager, Snyder Drug.

The seminar will be held on Sunday, Feb. 12 at 8:30 a.m. in Room 1A03 on the same level as the BTS exhibit hall. There is no charge for BTS registered attendees.

Fred Filer, vice president, publisher, *DSN*, will moderate with Jay Forbes, vice president, publisher of *Drug Store News*, also published by Lebhar-Friedman Inc.

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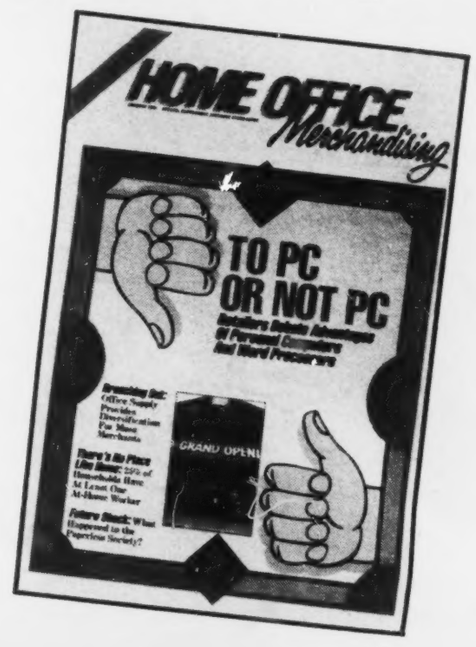

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Office Supply Industry to Double Outlets in 1989

More Operators May Go Public for Financing

By Laura Liebeck
Nationwide DSN Report

In just two years, the deep discount office supply industry has grown to 12 players, with two more companies on the way, and 141 stores across the country.

By year-end, the number of stores in the office supply industry is projected to grow 98 percent to over 280 stores, if all the expansion plans come to fruition and no chain crumbles under the weight of the increased competition.

So far, there are no indications of any chain in imminent danger of failing, although some industry insiders speculate that a shakeout could begin in about a year.

There has already been one fatality in the young industry: Office Station, Carol Stream, Ill., a division of the Ben Franklin variety store chain, sold its two stores to local operators last summer.

This year, expansion will be almost frenetic with the ambitious plans laid out by most operators. In addition, 1989 could be a transition year for the industry as chains become less reluctant to make public offerings. So far only Staples, Newton, Mass., has said it plans to become a publicly held company this year, but several other chains told *DSN* that while they have no immediate plans to become public, such a move is a possibility "down the road."

If Staples successfully becomes a publicly held company, it will be the fourth megastore chain to turn to the public sector for financial support. Last June, Office Depot, Boca Raton, Fla., became the first publicly held megastore firm in the industry. Next was Office Club, Concord, Calif., and HQ Office Supplies Warehouse, the new Los Angeles-based chain that plans to begin opening stores this month. HQ entered the business as a public company; the others were launched privately.

These four companies are not the only publicly held companies in the business, however. Office Square, with two units in Chicago, is part of Builders Square, a subsidiary of K mart. And, two-unit Office Shop Warehouse, McKeesport, Pa., is part of the G.C. Murphy division of Ames stores. Both firms, which entered megastore retailing during 1988, have not released 1989 expansion plans.

The most aggressive expansion plans for 1989 were released by Office Depot, which now operates 26 stores.

David Fuente, chairman, said Office Depot expects to have between 50 and 55 stores by the end of 1989, making it the largest chain in the indus-

(Continued on page 126)

Office Supply Megastores

Chain	First Store Opened	Number of Stores 1/88	1/89	12/89*
Staples Newton, Mass.	May 1986	16	22	39
Office Depot Boca Raton, Fla.	Nov 1986	14	26	50-55
Office Station** Carol Stream, Ill.	Jan 1987	1	0	0
Office Club Concord, Calif.	Jan 1987	5	15	27
Office America Richmond, Va.	Aug 1987	1	5	15
WORKplace St. Petersburg, Fla.	Nov 1987	3	5	12-13
Office Shop Warehouse McKeesport, Pa.	Mar 1988	1	2	NA
Office World Great Neck, N.Y.	Apr 1988	2	4	12
BizMart Arlington, Texas	May 1988	3	10	28
OfficeMax Cleveland, Ohio	Jul 1988	2	3	12-15
Office Square San Antonio, Texas	Aug 1988	0	2	NA
Jaffe's Miami, Fla.	1963†	7	10	20
Arvey Paper & Office Products Chicago, Ill.	1970†	36	36	40-42
OW Office Warehouse Virginia Beach, Va.	Dec 1988	0	1	11
HQ Office Supply Warehouse Los Angeles, Calif.	Jan 1989	0	2	10-14

**projected* †*First megastore opened in 1987* ***out of business*
Source: DSN research

New HQ Office Supplies Warehouse To Open Two Megastores in Los Angeles

LOS ANGELES — The newest addition to the deep discount office supply industry is HQ Office Supplies Warehouse, a venture led by retail veteran Robert J. McNulty, founder of HomeClub and the now ailing All American SportsClub.

The new megastore chain, the 14th in the industry, will open its first two stores in the Los Angeles area this month followed by two more in February, according to Brad R. Tukey, president and chief executive officer.

By the end of 1989, HQ will have between 10 and 14 units, initially clustered in Southern California, said Tukey.

The stores will range in size from 25,000 square feet to 35,000 square feet and contain 8,000 to 9,000 sku's of general office supplies. HQ also identified several power departments: furniture, office machines and software.

(Continued on page 126)

Particularly strong sales in apparel (as at this Green Bay, Wis., unit), contributed to a sales gain of 10% at Prange Way last year. (DSN photo)

Prange Way Opens 7 Newly Acquired Stores

By Kenneth M. Chanko

GREEN BAY, Wis. — Prange Way has just opened seven newly acquired and renovated stores in Wisconsin, and more acquisitions, as well as new store openings, are on tap for this thriving Midwest discounter, according to president Larry Sommer.

Prange Way, the general merchandise discount store division of Sheboygan, Wis.-based H.C. Prange, acquired the seven Schultz Family Stores early last month. The seven are located in Antigo, Plymouth, Reedsburg, Rhinelander, Shawano, Sturgeon Bay and Waupaca, Wis. A Schultz store in Owatonna, Minn., was acquired in a separate transaction in November and reopened the day after Thanksgiving Day with what Sommer described as "outstanding business."

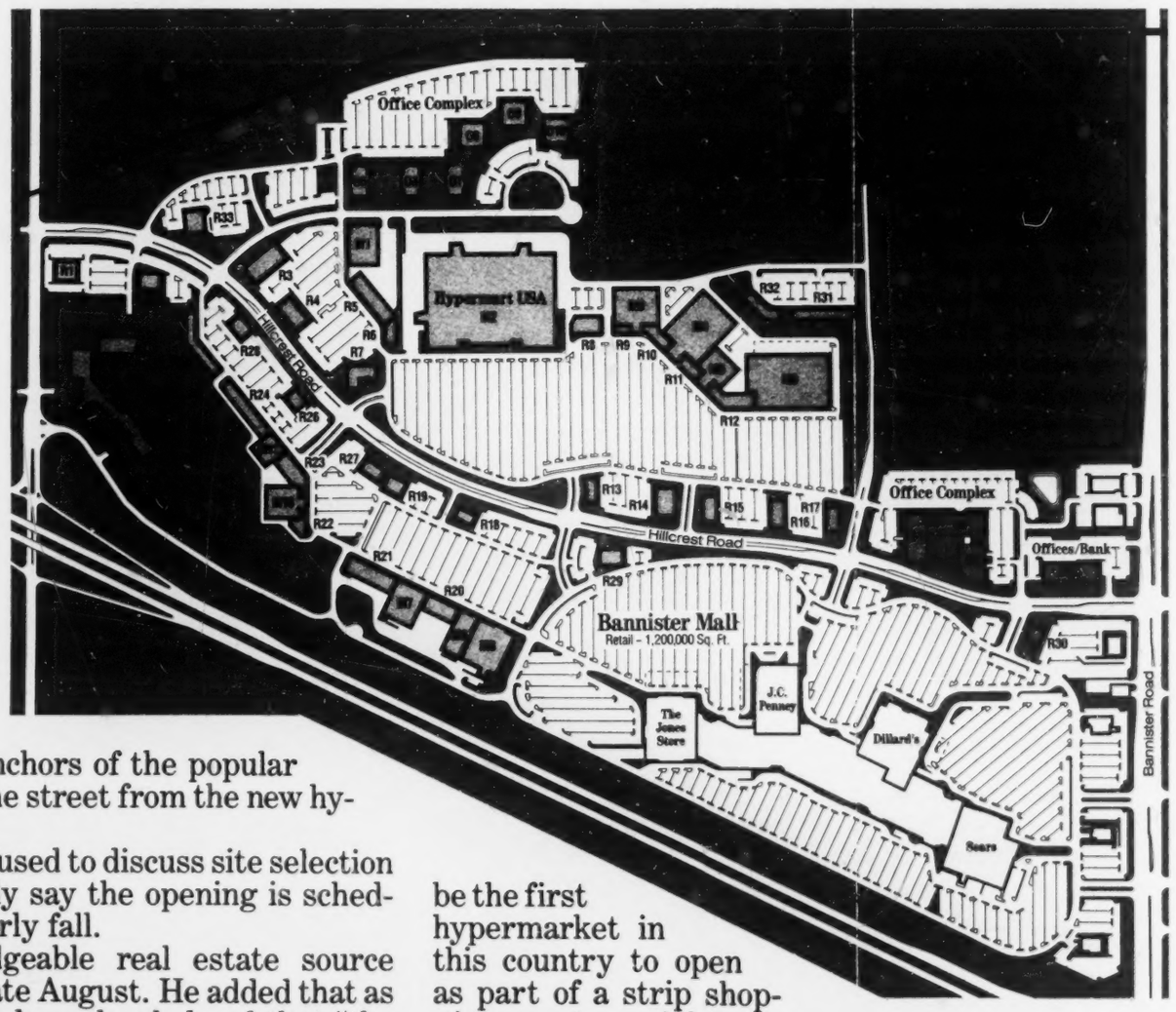
Formal grand opening ceremonies for the seven stores, which brings to 25 the total number of Prange Way units, will be held in April. All but two of those units are located in Wisconsin.

(Continued on page 126)

Fourth Hypermart USA to Join Dept. Stores in Kansas City Mall

BENTONVILLE, Ark. — In a departure from past site selection strategy, Wal-Mart's fourth Hypermart USA will open in a newly developed strip mall and office complex across the street from an existing traditional mall.

Scheduled to open in late August as part of Benjamin Plaza in southeastern Kansas City, Mo., Wal-Mart's newest Hypermart USA will be competing with numerous specialty discounters in the plaza as well as Sears, Dillards, JCPenney and The Jones Store, the anchors of the popular Bannister Mall across the street from the new hypermarket.



Wal-Mart officials refused to discuss site selection strategy, and would only say the opening is scheduled for late summer/early fall.

However, a knowledgeable real estate source pegged the opening to late August. He added that as of last month, the ground was leveled and that "the site was just turned over to Wal-Mart—ahead of schedule." The hypermarket is expected to open before other stores in the plaza.

The source would not comment on whether the approximately 268,000-square-foot hypermarket space would be leased, saying only that some ownership deals have been arranged in the new strip mall and office complex. Wal-Mart officials would not comment, either.

Wal-Mart's three existing Hypermart USAs are "destination stores," in that they are not close to other major shopping complexes. Each must attract traffic on its own. This fourth Hypermart USA will be the first hypermarket in this country to open as part of a strip shopping center within easy walking distance of a traditional mall.

Technically, the Hypermart USA, which will cover 6.3 acres, will be freestanding, though it is part of the 173-acre shopping and office complex. Benjamin Plaza is being built adjacent to the 82-acre Bannister Mall, which has over 1 million square feet of retail space and houses over 180 smaller stores in addition to the four anchors.

When completed, Benjamin Plaza and Bannister Mall together will total 2.1 million square feet of retail space with 12,800 parking spaces, making it one of the largest retail shopping complexes in the United States.

EDITORIAL

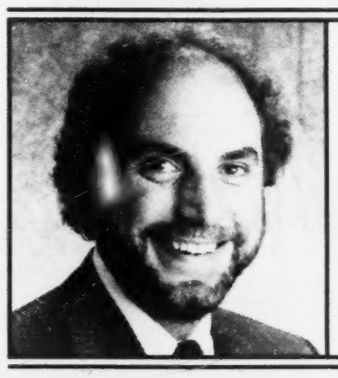
Newsmaker Sears Merits In-Depth Look

Sears, hypermarkets, K mart, Wal-Mart, Ames and Zayre. What do they have in common?

Well, Sears is not opening a hypermarket, nor is Ames or Zayre—not yet anyway. But Wal-Mart did and K mart is about to. And all eyes are focused on Atlanta where American Fare will debut on January 29.

These names were among the top newsmakers of 1988. And all indications are that they will repeat in 1989.

As retailers prepare for two of this year's most important shows—CES beginning January 7 in Las Vegas and Housewares beginning January 15 in Chicago—these topics and others will be discussed on the floor.



TONY LISANTI
Editor

One topic everyone wants to know about is Sears' new merchandising strategy. As rumors surface and hypotheses develop, *DSN* will continue its own investigation. In fact, *DSN* will devote its entire March 20 issue to the nation's largest retailer and its impact on discount retailing. This marks the first time in the 26-year history of this publication that Sears, or any mass merchant, will be the focus of a special full-issue study. Why? Consider the following:

"But then, quite suddenly, Sears began to fall apart. Within five years, the seemingly invulnerable company would appear so badly injured and so lacking in direction that it verged on paralysis . . . Once-loyal customers had begun to stay away from Sears stores and to avoid the company's venerable catalog in such numbers that it appeared the American middle class, which Sears had decorated and lent physical definition over the years, had given up on the floundering company altogether.

"Nobody at Sears was able to fathom what had happened, and nobody had any idea what to do . . . An organization that only five years earlier had seemed utterly unstoppable was now a crippled leviathan, and by 1977 many of those who depended upon Sears, who studied it or loved it, had come to believe that if something was not done very quickly, the company was doomed."

Deja vu? These are excerpts from the introduction to Donald Katz's book, "The Big Store," which was published in 1987. Maybe it's time for another in-depth look?

Wal-Mart and Ames will again be top newsmakers in 1989. Industry observers still wonder whether double-digit sales increases will continue for the Bentonville chain and whether the Rocky Hill chain can digest its Zayre acquisition.

Then there's the unknown. Who will be the stellar performers in 1989, and who will be the casualties? Will there be more mergers, acquisitions and LBOs? You bet. Look for catalogers to continue to rebound, warehouse clubs to continue their record pace of growth, electronic shopping to make a lot of news, but not a lot of profit, and some regional chains that many observers have written off to show some signs of life.

And look for *DSN* to break the news and tell the story.

Enjoy the issue—its new look, expanded coverage of major categories including consumer electronics and housewares, and the debut of a special section, Home Office Merchandising, devoted to this fledgling category.

WASHINGTON REPORT

Deficits May Become a Taxing Matter for Bush

Top officials of the incoming Bush administration are being urged to consider a new tax on consumer spending as an option for reducing the federal budget deficit.

Among the "consumption tax" variations suggested to the Bush transition team by the General Accounting Office: a national sales tax; a European-style value added tax; and an equally radical personal expenditure tax.

KEN RANKIN

None of these alternatives are likely to prove popular among discounters and other retailers who have traditionally opposed consumption taxes for fear that they may chill consumer spending.

Similarly, GAO's proposals drew a chilly reception from the president-elect, who campaigned on the promise of "no new taxes."

According to agency officials, that's one campaign promise Bush won't be able to keep in view of the need to trim the mounting deficit.

"Based on past experience it will be extremely difficult to bring down the deficit solely through management efficiencies and spending cuts," GAO Comptroller General Charles A. Bowsher warned Bush transition officials. In a report outlining the new administration's consumption tax options, GAO officials suggested that these new revenue raisers could be easily phased into the present system.

"Under a personal expenditure tax, which would replace the individual income tax, individuals would pay a tax only on their consumption," the report explained. "Withholding would continue and individuals would be required to file an annual form with the IRS similar to the form filed for income tax purposes."

In contrast, "under a national retail sales tax, the compliance burden to file the appropriate form and pay the collected tax would be placed on retail businesses," the agency added.

GAO officials placed most of their emphasis on detailing the merits of a VAT, which would be collected at each stage of the production and distribution process.

Citing estimates by the Congressional Budget Office, GAO officials predicted that "a comprehensive, 5 percent VAT could bring in almost $117 billion annually, while one that would exempt food, housing, and medical care could yield about $67 billion annually."

IMRA PRESIDENT'S CORNER

Bush's Call Echoes Kennedy's Appeal to Youth

When I was growing up, my grandfather and father always told me about several events in their respective lives which had great impact on them.

When I got older, I realized that most of my friends had been told the same thing about the same events, namely the stock market crash of 1929 and the bombing of Pearl Harbor. People not only remembered these events, they had a vivid recollection of where they were and what they were doing when the event occurred. My father remembered the particular discussion he was having when Pearl Harbor was bombed.

RICHARD HERSH

For persons in my age group, the assassination of President Kennedy has had the same type of "stamp." I, too, am able to remember clearly where I was. Indeed, I was working as a disc jockey on the college radio station when the wire service machine let loose with "twelve bells." All of us who had heard the alert thought that there was something wrong with the machine, since that particular signal had been used only a handful of times.

Soon after the final news arrived telling us that the President was dead, the Mutual Broadcasting System called and asked several students to go to Washington to work as stringers. Naturally, by the time we got to Washington all we could do was stand in along line to view the bier of the President.

I was amused at how many persons denigrated President-elect Bush's call for "a kinder and gentler America." Perhaps he did overuse the phrase, but that was exactly what the Kennedy presidency offered to the youth of 25 years ago. Certainly the Kennedy administration did not solve the many problems facing it, but it seems to me that George Bush has a unique opportunity to make good on his goal. He will be following a popular president who has left a legacy of good feeling among many Americans, and he will enter office at a time when relations among the world powers have taken a turn for the better.

Those of us who saw our idealism shattered that day in Dallas greatly look forward to "a kinder and gentler America."

Discount Store News®

is published by
LEBHAR-FRIEDMAN INC.
425 Park Ave., New York, NY 10022
212 371-9400
Subscription Services, ext. 379 or 419
Cable Address: LEBHAFRIED
Panafax: 212 838-9487

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REGIONAL OFFICES

Boston 1 Gateway Center, Newton, MA 02158
617-527-6394
Regional Manager **James Malver**

Cleveland Summit One Bldg., 4700 Rockside Rd., Independence, OH 44131
216-642-3420
Office Manager **Martha MacVean**
Area Manager **Dave Tuttle**

Chicago 444 N. Michigan Ave., Chicago, IL 60611
312-644-8688
Regional Manager **Edward Nessel**
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Los Angeles 606 N. Larchmont Blvd., Los Angeles, CA 90004
213-464-8321
Regional Manager **John Donoghue**
Area Manager **Howard Zabner**
Correspondent **Pamela Krein**

San Francisco 400 Montgomery St., San Francisco, CA 94104
415-362-2575
Regional Manager **Richard J. Harrigan Jr.**

Washington 117-35 Striley Drive, Ashton, MD 20861
301-774-3895
Manager, Correspondent **Kenneth Rankin**
Correspondent **Deane Evans**

Japan Diamond-Friedman Ltd. Chain Store Age News Japan 1-4-2 Kasumigaseki, Chiyoda-ku Tokyo, Japan 504-6750

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Publisher of Discount Store News, Accounting Today, Nation's Restaurant News, National Home Center News, Drug Store News, Computer&Software News, Computer Product Selling, Chain Store Age Executive (with Shopping Center Age), *APPAREL merchandising*. Affiliates: Business Guides Inc. (Directories); Lebhar-Friedman Books; Inside Retailing (Newsletter); Chain Store Age News, Japan; Largo Music Inc.

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No Place Like Home

New research reveals that 25% of all U.S. households have at least one person who works in the home regularly or occasionally

By Laura Liebeck

Working at home has become so popular in today's fast-paced society that 25 percent of all U.S. households have at least one person who works in the home regularly or occasionally, according to just-completed research conducted exclusively for *DSN*'s new *Home Office Merchandising* supplement.

Leo J. Shapiro & Associates, the Chicago-based consumer research firm, found that these at-home workers spend a mean average of 20.7 hours a week on job-related projects at home, and half of those home workers have established office settings specifically for their at-home work. Overall, 23.9 percent of U.S. households have set aside areas in their home to do office work.

In addition, half of the home workers purchased at least one out of the nine items of office equipment studied in this survey in the past year. Another three in 10 report they are planning to make an office equipment purchase for their at-home business use within the coming year.

Most of the equipment purchases were intended for at-home use, although a small portion of the survey respondents said they purchased the equipment for use at work.

Equipment such as telephones, personal computers, computer software and office furniture, particularly desks and chairs, were the items cited most often as likely purchases for the next 12 months.

When these consumers set out to buy office equipment for their home office business environment, 90 percent of them said they would go to a retail outlet, and not a wholesaler or distributor.

Survey respondents said they were most likely to shop for office equipment at a department store, especially Sears, followed by consumer electronics and appliance outlets, particularly Radio Shack, and retail discount department stores. At-home workers were more likely to name electronics and appliance outlets first, followed by department stores and retail discount department stores.

Traditional discounters such as K mart, Wal-Mart and Target received comparatively few mentions as likely stores respondents would go to purchase office equipment.

The relatively young deep discount office products retailers, such as Office Depot and Staples—which were not mentioned by name in the survey—also received relatively few mentions as stores in which consumers would shop for office equipment. Specialty full-price office retailers and wholesale office suppliers were named more often than the new megastores.

Other outlets mentioned by home workers as likely places to make their business equipment purchases were warehouse clubs, catalog showrooms and computer stores.

The results of the survey were based on a nationwide sampling of 450 households.

The home office respondents tended to be younger, more affluent and better educated than the entire sampling, the survey revealed.

"In a word, working at home defines an upscale, high-quality market," said George Rosenbaum, president of Leo J. Shapiro & Associates.

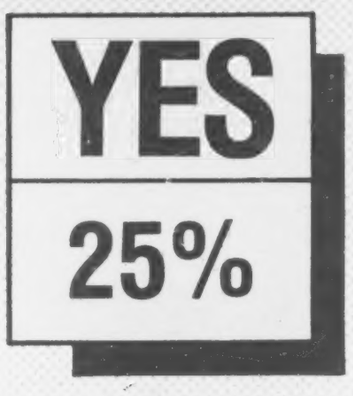
Specifically, the survey reveals the following facts about home office workers:

- They have a median age of 35.9 years;
- 94 percent hold high school degrees or beyond;
- 83 percent have an annual family

(Continued on page 41)

The Home Office Market

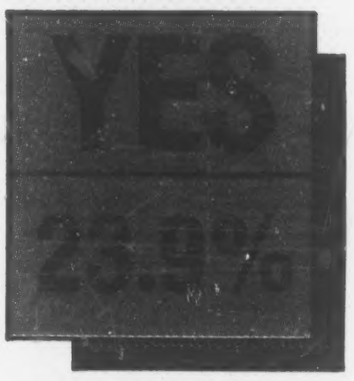
Is there anyone in your household who regularly or occasionally works at home?



How many hours per week?

20.7 hrs.

Does your home have space set aside as an office or special work area?



Source: Leo J. Shapiro & Assoc.; Nov. 1988

Home Sweet Home Office

TONY LISANTI
Editor

Home Sweet Home, er . . . Office! I mean Home Sweet Home Office! It's no longer a shock to anyone that America is entering the "age of the electronic cottage."

Sounds like a commuter's dream come true. Imagine your office a few "steps" from the bed, bath and refrigerator. According to Link Resources, 25 million Americans are working at home with that figure expected to reach 40 million by 2000. This growth has been partly fueled by technology (facsimiles, personal computers, modems, etc.) that has made communications quick, easy, efficient and affordable, regardless of distance.

In fact, the home office phenomenon represents a dream come true for retailers as well. The growth in home office has created a tremendous merchandising opportunity for electronics as well as stationery and furniture related products. The U.S. Commerce Department estimated the office supply industry as a $100 billion industry which is projected to reach $125 billion by 1990.

With this in mind, welcome to the premiere of Home Office Merchandising, a special section of *Discount Store News*. I must confess that I did not write this column at home, but I am in the process of setting up a home office.

I welcome your comments about this special supplement—whether you write a letter in your new "electronic cottage" or your old office away from home!

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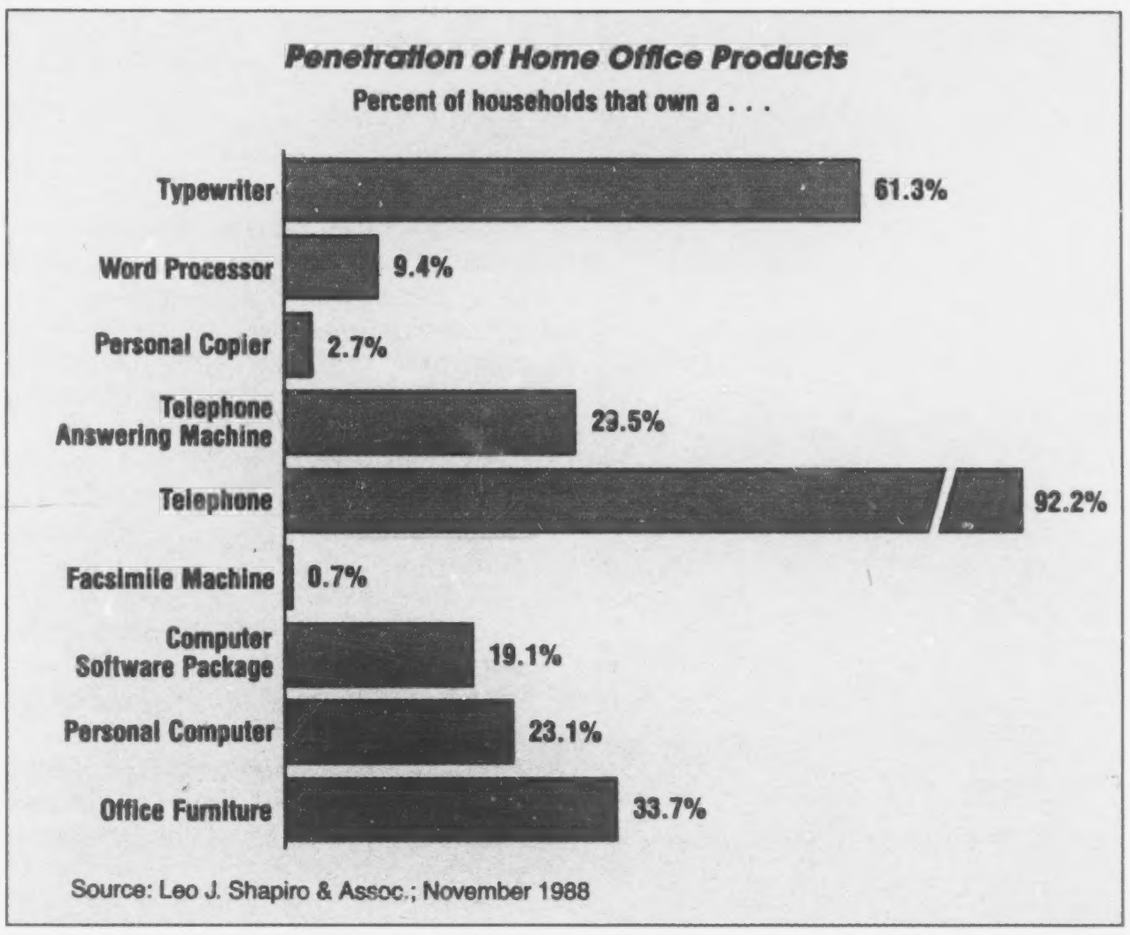
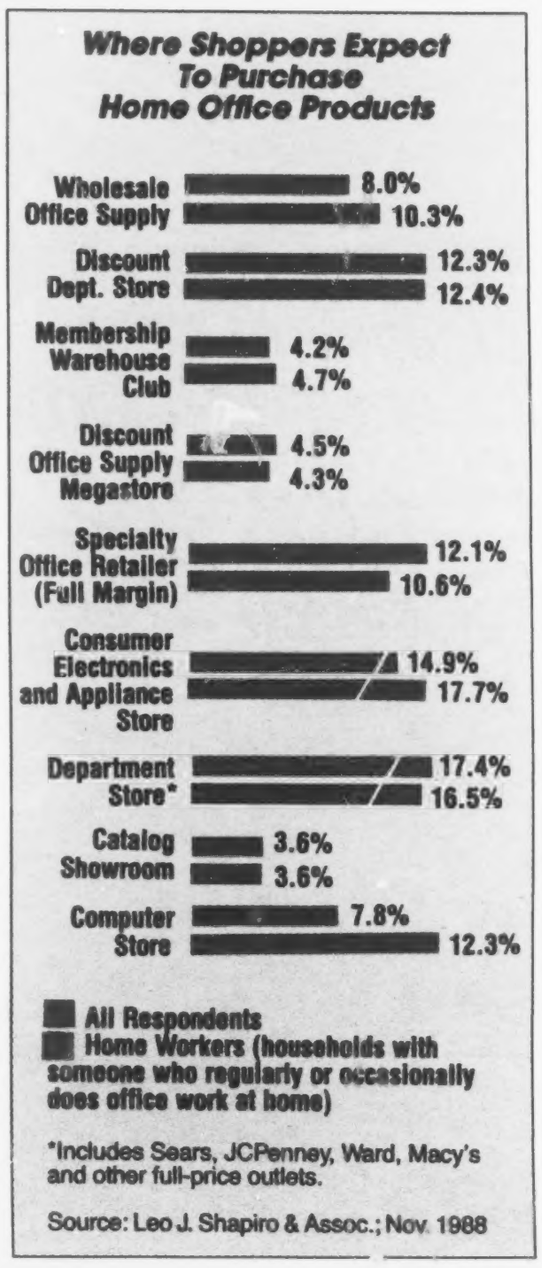
HOME OFFICE Merchandising
is published by
Discount Store News.

Discount Store News
LEBHAR-FRIEDMAN INC.
425 Park Ave., New York, N.Y. 10022
212 371-9400
Subscription Services, ext. 379 or 419
Cable Address: LEBHAFRIED
Panafax: 212 838-9487

There's No Place Like Home


Penetration of Home Office Products
Percent of households that own a . . .
Typewriter 61.3%
Word Processor 9.4%
Personal Copier 2.7%
Telephone Answering Machine 23.5%
Telephone 92.2%
Facsimile Machine 0.7%
Computer Software Package 19.1%
Personal Computer 23.1%
Office Furniture 33.7%
Source: Leo J. Shapiro & Assoc.; November 1988


Where Shoppers Expect To Purchase Home Office Products
Wholesale Office Supply 8.0% 10.3%
Discount Dept. Store 12.3% 12.4%
Membership Warehouse Club 4.2% 4.7%
Discount Office Supply Megastore 4.5% 4.3%
Specialty Office Retailer (Full Margin) 12.1% 10.6%
Consumer Electronics and Appliance Store 14.9% 17.7%
Department Store* 17.4% 16.5%
Catalog Showroom 3.6% 3.6%
Computer Store 7.8% 12.3%
All Respondents
Home Workers (households with someone who regularly or occasionally does office work at home)
*Includes Sears, JCPenney, Ward, Macy's and other full-price outlets.
Source: Leo J. Shapiro & Assoc.; Nov. 1988

(Continued from page 39)

income above $20,000 with nearly 40 percent earning over $40,000;

- They're more optimistic about the nation's economy than others in the sampling;
- They're less likely to be the chief breadwinner, although nearly three-fourths are part of a dual-income family.

Logically, people who work at home tend to own more office-related equipment. According to the survey, twice as many home workers own or plan to buy typewriters, word processors, copy machines, telephone answering machines, telephones, facsimile machines, computer software packages, personal computers and office furniture as do non-home workers.

The only exception to the rule was in telephones, where the margin separating home workers from non-home workers was smaller due to the very high penetration of telephones and telephone answering machines.

Only two office equipment items showed small penetration by home workers: personal copiers and facsimile machines. This is probably due to the relatively high price tags of these products.

Fax machines, the item owned by the fewest survey respondents and the least likely to be purchased in the next 12 months, was purchased by less than 1 percent of all survey respondents in the past year, by 2.2 percent of home workers (those who bring office work home) and 4.6 percent of home-based office workers (those running businesses out of their home).

Only 0.07 percent of survey respondents said they planned to buy a fax machine in the next 12 months, compared to 1.6 percent for home workers and 3.4 percent for home-based operations. All three groups said they would expect to pay about $1,000 for a fax machine.

Personal copiers were purchased or listed as a planned purchase by slightly more survey respondents. Two percent of all respondents said they owned a copy machine, compared to 4.1 percent of home workers and 3.9 percent of home-based businesses.

Within the year, 2.5 percent of all respondents said they would buy a copier compared to 5.2 percent for home workers and 7.7 percent of home-based workers.

Each group expected to pay approximately the same amount of money for a copier: $744 for all survey respondents and $728 for home workers. Home-based respondents said they didn't know how much they would pay for a copier.

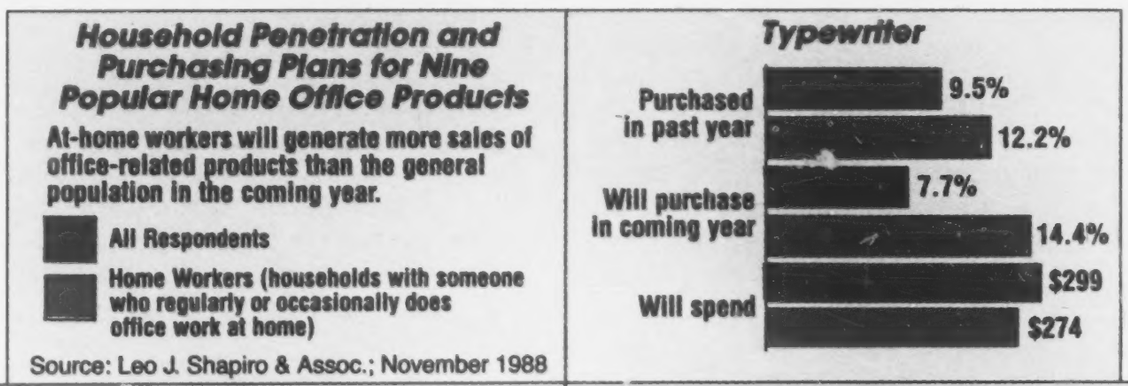
Among home workers, the most popular piece of business equipment purchased in the past year was, predictably, the telephone, followed by the telephone answering machine, office furniture, computer software packages, personal computers, typewriters and word processors.

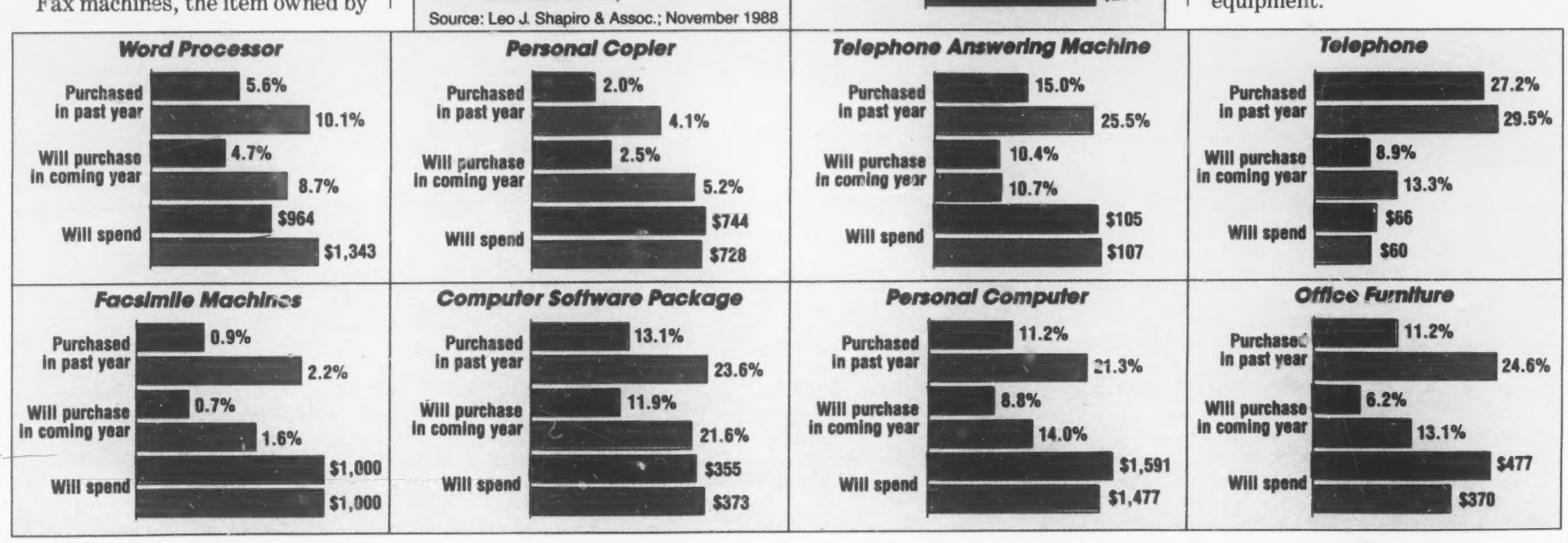
Within the next 12 months, home workers listed their likely business equipment purchases in the following order: computer software package, typewriter and personal computer.

For the home-based business worker, the shopping list would vary a little. Computer software topped the list, followed by a new telephone, a personal computer and office furniture.

When respondents were asked about the kinds of office equipment their households own, two surprises arose.

One-third said their households own a piece of office furniture, and nearly one-fourth said they own a personal computer, evidence of the growing acceptance of technology in the home and the many uses for the equipment.


Household Penetration and Purchasing Plans for Nine Popular Home Office Products
At-home workers will generate more sales of office-related products than the general population in the coming year.
All Respondents
Home Workers (households with someone who regularly or occasionally does office work at home)
Source: Leo J. Shapiro & Assoc.; November 1988


Word Processor
Purchased in past year 5.6% 10.1%
Will purchase in coming year 4.7% 8.7%
Will spend $964 $1,343
Personal Copier
Purchased in past year 2.0% 4.1%
Will purchase in coming year 2.5% 5.2%
Will spend $744 $728
Telephone Answering Machine
Purchased in past year 15.0% 25.5%
Will purchase in coming year 10.4% 10.7%
Will spend $105 $107
Telephone
Purchased in past year 27.2% 29.5%
Will purchase in coming year 8.9% 13.3%
Will spend $66 $60
Facsimile Machines
Purchased in past year 0.9% 2.2%
Will purchase in coming year 0.7% 1.6%
Will spend $1,000 $1,000
Computer Software Package
Purchased in past year 13.1% 23.6%
Will purchase in coming year 11.9% 21.6%
Will spend $355 $373
Personal Computer
Purchased in past year 11.2% 21.3%
Will purchase in coming year 8.8% 14.0%
Will spend $1,591 $1,477
Office Furniture
Purchased in past year 11.2% 24.6%
Will purchase in coming year 6.2% 13.1%
Will spend $477 $370

From corned beef to legal briefs, the call is clear: FAX IT!

Until just a few years ago, the words "fax it to me" weren't in many people's vocabulary. Things have changed radically.

Facsimile technology has become so widely available and affordable for businesses of all sizes that a fax is now considered a necessity in most offices.

It is, by most accounts, the hottest advancement in office technology now available. Businesses have found fax to be the fastest, easiest and cheapest way to communicate with one another.

"Who would have thought three years ago that someone would come into a store and give you $900 and carry a fax out under their arm?" said Steve Sink, president of Miami-based office products retailer Jaffe's.

Faxing is the electronic transfer of information over telephone lines. It provides the receiver with an exact copy of the sender's original document at a fraction of the cost of an overnight mail package and at a speed measured in seconds and minutes, rather than hours or days.

Perhaps the quintessential example of a small business taking advantage of the technology is a New York delicatessen owner who uses a facsimile machine to send and receive food orders.

Whatever the business, facsimile machines constitute an exploding market of opportunity for retailers who sell the devices. And the future is only expected to brighten.

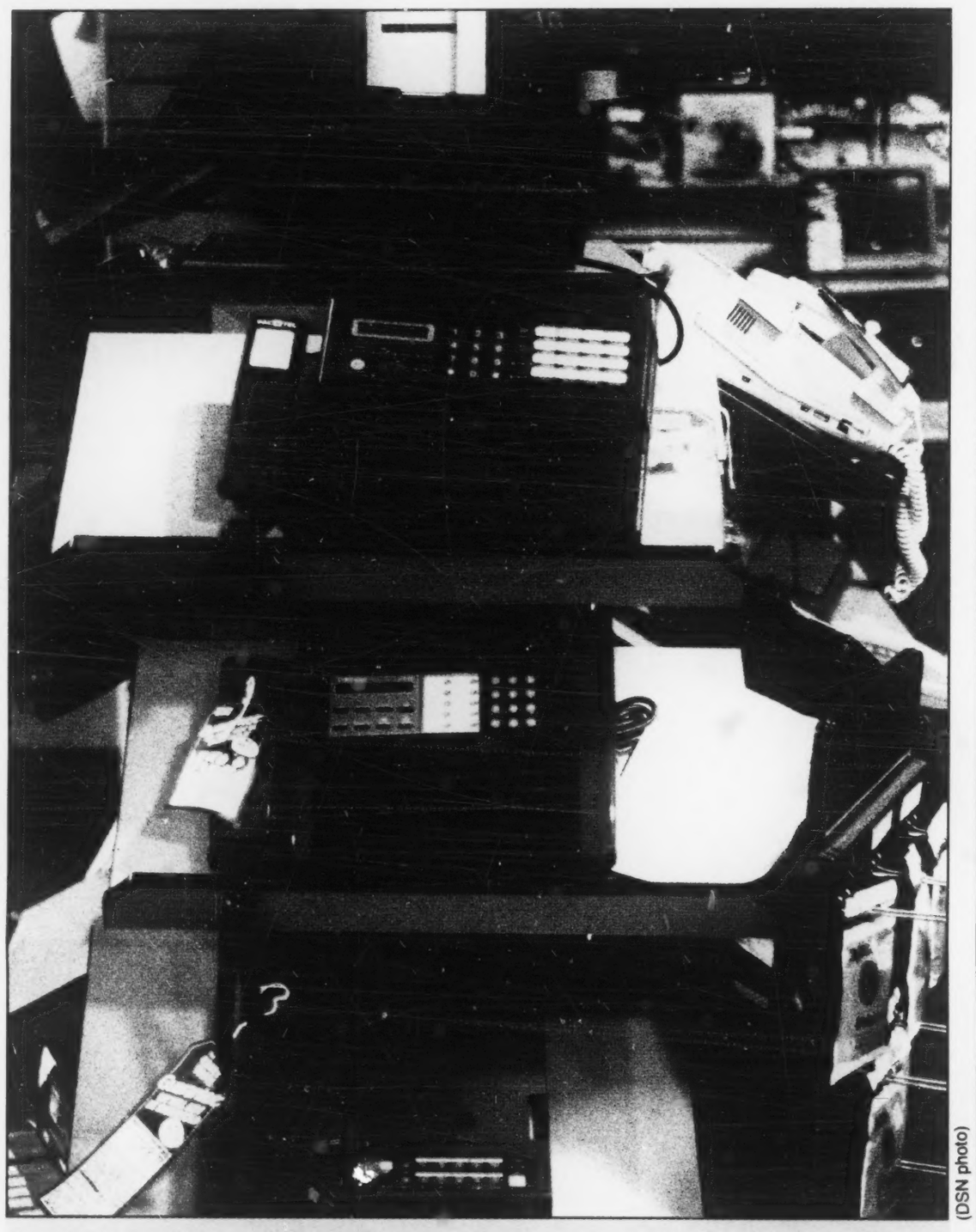
"There is a whole fax phenomenon now," observed Sally Wood, chief executive officer of Office America, Richmond, Va. "It's so short-lived, yet we wonder how we lived without them."

Indeed. Fax sales have skyrocketed in the last few years, and sales estimates for the 1990s are producing statistics that some call mind-boggling.

Facsimile machines are a $2.07 billion market domestically, according to the Computer and Business Equipment Manufacturers Association in Washington, D.C., up from slightly less than $1.5 billion in 1987. By 1990, CBEMA projects sales will top $3.1 billion.

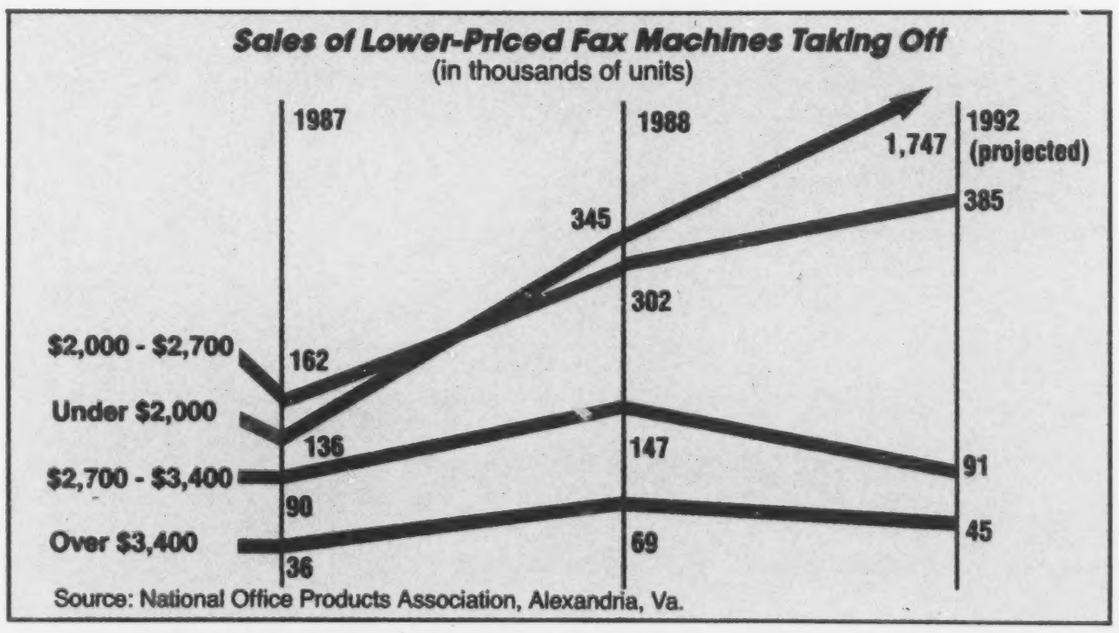
In terms of units, fax machines were projected to chart a 54 percent increase in 1988 over 1987, to 900,000 units from 583,800 units, according to CBEMA. The unit count was slightly higher than that projected by the National Office Products Association, which estimated 1988 unit sales at 863,000, up from 424,600 units in 1987. By 1992, NOPA predicts fax sales will jump to 2.3 million units, an increase of 166 percent over 1988.

The sales explosion is being enjoyed by all participants.



(DSN photo)

Facsimile machines at Crazy Eddie in New York: *exact duplicates in minutes at a fraction of the cost of sending documents by overnight mail.*



At Murata, a relative newcomer to facsimile manufacturing, sales more than doubled between 1987 and 1988 to $250 million. By the mid-1990s, Murata expects sales to hit the $1 billion mark, said Ed Propkop, director of consumer electronics. To help the company quickly achieve its goal, Murata is currently committed to a $12 million advertising campaign to stimulate brand awareness. That's three times the ad budget of the previous year.

Currently, fax machines aimed at small business customers are priced at under $2,000 and generally sell for between $700 and $2,000. The most popular price range appears to be under $1,000.

In fact, NOPA reports that in 1988 facsimile machines priced under $2,000 outnumbered higher-priced models in unit sales. This was not the case in 1987. By 1992, machines priced under $2,000 will outnumber machines in the next highest sales bracket by six to one. Sales of higher-priced models, those in the $2,700 to $3,400 price range, and machines priced at over $3,400, will decline dramatically by 1992, NOPA predicted.

Pricing is a big factor among the nation's new office products megastores, operators report. In fact, prices of fax machines have been declining recently to match price rollbacks at the manufacturer level, a result of increased production and technology advances.

But supply of fax machines remains a problem for retailers. Manufacturers have been hard-pressed to keep pace with the demand.

Despite that, retailers report that facsimile machines are the "hottest technology out there" and they are closely monitoring the business for new technology, brand names and special buys.

Many retailers report they are expanding their offerings in fax to present a broad range of products with assorted features.

During the first quarter of 1989, Newton, Mass.-based Staples expects to "beef up" its offerings in fax machines and is reconfiguring its entire office machine department to make room for product additions in several areas.

Staples wants to offer customers a selection of fax machines with different features, explained Todd Krasnow, vice president, marketing. Currently, Staples offers four fax sku's, a Sharp, a Ricoh and two Toshibas, ranging in price from $1,049 to $1,649.

At Arvey Paper & Office Products, Chicago, the fax machine offering "went from nothing to four models" in six months, said Michael Allen, manager of market development. "Fax is the hottest thing going," he said.

Currently, Arvey has its four-sku fax program in 11 of its 36 stores and will spread the program throughout the chain. Fax sales, said Allen, are exceeding plan.

Sales are being driven in large part, he speculated, by the company's facsimile service. Customers are introduced to the advantages of fax by using Arvey's fax service. After that, they wind up coming back into the stores to buy their own facsimile machines.

Ron Stegall, president of BizMart, Arlington, Texas, has observed the same behavior in his stores. And this year, Stegall is considering shaking up his fax mix and possibly expanding it, too.

BizMart offers several different fax brands, including Omni, Packard-Bell, Sharp and Medbar, a portable. The price range is $799 to $1,799, but the most popular is the $799 Sharp, he said.

Michael Feuer, co-partner of OfficeMax, Cleveland, said he probably will add to his fax offerings this year but at the upper end. He said customers are looking for a good, better, best selection and are particularly interested in some commercial grade machines.

Discounters Take One-Third of Small Electrics Sales

By Mary Ellen Kelly
Nationwide DSN Report

Ten percent to 15 percent of American consumers plan to buy a coffee maker, vacuum cleaner, microwave oven or hair dryer this year and, overall, more will go to a discounter for these purchases than to any other retail outlet, according to a study just completed by Chicago-based Leo J. Shapiro & Associates for *DSN*.

The survey of over 450 U.S. households revealed that 38 percent of those planning to buy any of 10 small appliances this year will probably go to a discounter for that item instead of a national mass merchandiser chain, department store, catalog showroom, membership warehouse club or specialty store.

The 10 appliances examined in the survey were: coffee makers, microwave ovens, toaster ovens, food processors, fans, blenders, irons, hair dryers, vacuum cleaners and electric shavers.

While discounters top the list of retail outlets consumers would go to for small appliances, membership clubs are making inroads in product categories like vacuum cleaners.

The number of people who would go to a discounter for an appliance dropped to 31 percent when both consumers who were planning to buy an appliance and those who were not planning to buy were taken into consideration.

National mass merchandisers like Sears, however, maintained an 18 percent response rate among the total group as well as those planning to buy in the coming year. Department stores and catalog showrooms both dropped from 8 percent to 7 percent when those who do not have immediate plans to make a purchase were compared to the population as a whole.

While discounters top the list of retail outlets consumers would go to for small appliances, membership warehouse clubs are making inroads in product categories like vacuum cleaners.

The Sears Kenmore brand is also gaining dominance in most of the 10 product lines studied, especially in microwave ovens.

The service offered by department stores continued to attract those customers who can afford to pay a little more for a little more service, as well as shoppers looking for the latest in trade-up appliances.

On average, the preference breakdown for different types of retail outlets in small appliances among all those surveyed (both those intending to buy an appliance in the next year and those who are not) was probably best reflected in coffee makers.

When consumers were asked where they would buy a coffee maker if they decided to buy one, 37 percent named a discount department store. National chains (i.e., Sears, JCPenney and Montgomery Ward) were mentioned by another 15 percent; department stores and catalog showrooms were the choice of 12 percent and 10 percent, respectively. Membership warehouse clubs were named by 5 percent of respondents.

In contrast, when it came to vacuum cleaners, membership warehouse clubs actually tied with discounters with a 17 percent response rate, while national chains outpaced both with a 24 percent response rate, most of those citing Sears.

Sears was named more often than K mart as the store consumers would shop for five of the 10 small appliances studied. Twenty percent of consumers would to go to Sears for a microwave oven while under 7 percent would go to K mart. This 13 percentage point spread was second only to the retailer preference for vacuum cleaners where K mart was named by only 5 percent of consumers compared to nearly 20 percent who named Sears.

For toaster ovens, food processors and fans, Sears beat K mart by 10, 4 and 1 percentage points, respectively.

Part of the reason why Sears was chosen for certain appliances over K mart—as well as Wal-Mart and other individual chains listed—was due to preference for the Sears Kenmore brand name. Kenmore was second only to General Electric for microwave oven and fan brand preferences. The Sears label was mentioned third most often for vacuum cleaners and fifth for toaster ovens and irons. In fact, the Sears label was among the top 10 of each of the small appliances studied in the consumer survey.

Even though General Electric sold its small appliance division to Black & Decker three years ago, GE continues to dominate the consumer's top-of-mind awareness for these products. GE was named most often for seven of the 10 items studied. Only for coffee makers, vacuum cleaners and electric shavers did consumers name another brand more frequently: Mr. Coffee, Hoover and Norelco, respectively.

Sears' dominance in microwave ovens could also be related to the anticipated price lev-

(Continued on page 106)

Consumers Prefer Discounters for Small Electric Appliances

Consumers who said they planned to buy one of 10 small electric appliances named the type of store they would visit to make their purchase:

Product	Discount Store	National Chain*	Catalog Showroom	Department Store	Warehouse Club
Coffee Maker	29%	18%	15%	16%	7%
Microwave Oven	20	19	7	10	9
Hair Dryer	57	17	6	6	8
Vacuum Cleaner	22	36	5	5	8
Iron	45	16	7	7	7
Electric Shaver	33	15	8	8	9
Food Processor	33	11	11	11	12
Blender	44	25	9	9	6
Fan	58	14	0	9	6
Toaster Oven	35	18	8	10	14
Average	**38%**	**18%**	**8%**	**8%**	**9%**

**Includes Sears, JCPenney, Ward*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Discounters' Small Electrics Depts. Get Top Rating in Consumer Study

Nationwide DSN Report

Discounters evidently know who their small appliance shopper is and how to stock the department to meet their needs, according to a separate *DSN*-sponsored consumer study on discount department store product categories.

Sharper prices and broader selection will entice them to spend more of their growing budget for small appliances at discounters, the study found.

Of 15 major product categories, consumers in general were most pleased with discounter performance in small appliances, housewares and toys.

These departments received the highest grades from consumers who were asked to rate 15 product categories on the basis of how well those departments satisfy their purchasing needs.

Based on interviews with 900 households, the nationally projectable study examined 15 product categories that account for the majority of a typical discount store's sales.

The study looked at each category from the consumer's perspective: asking how many households are shopping discounters for each of these categories; how shoppers evaluate discount department stores compared to other types of retailers; and if they had plans to buy more or less from discounters during the coming year.

Consumers were asked to grade each merchandise category based on a nine-point scale with "9" indicating the best place to buy each category of goods, and "1" indicating the store which was "not so good" for that category.

Of the 15 merchandise groups, the highest-rated were toys (mean rating: 7.11), small appliances (7.08), and housewares (7.07), followed by toiletries and personal care (6.88), domestics (6.80), and stationery supplies (6.73).

In addition to finding the small appliance they need at a discounter, consumers also said they expected to spend more money on small appliances in the future, although not necessarily at a discount outlet. Seventeen percent said they planned to be buying fewer small appliances from discounters in the future but 25 percent expected to be buying more at discounters.

Consumers are generally pleased with discounters for small appliance purchases. Sharper prices and broader selection could capture more of this growing category.

Some resistance to buying a small appliance in a discount store was expected to limit the extent of future growth. Roughly 10 percent of consumers said if prices were lower they would shop a discounter more often for small appliances. Another 3 percent said greater variety would keep them coming back.

Consumers said 34 percent of all the money they spend on small electrics is spent at discount department stores, the third-highest percentage share of all departments studied. Respondents estimated they spend 43 percent of all dollars used for toys and 42 percent of all housewares dollars at discounters.

Microwave Sales to Drop In '89 as Market Saturates

CHICAGO — Microwave oven shipments are expected to continue a steady decline during 1989 as market saturation becomes a reality, according to the Association of Home Appliance Manufacturers.

Nonetheless, discount retailers told *DSN* they have not yet experienced much of a drop-off in consumer demand for microwave ovens.

The most current shipment reports stated that microwave oven and range shipments were down 14.2 percent for year-to-date in November. The association estimated that by the end of 1989, shipments will tumble by another 6 percent to 10.3 million units. AHAM had previously forecast that microwave oven shipments would drop by only 13 percent during 1988.

All totaled, the major appliance industry has had a fair year with shipments down only 1.7 percent. The growth of the replacement business for appliances other than microwave ovens was one reason given for its relative vitality. Air conditioner shipments boosted the industry average considerably with shipments up by almost 22 percent for November year-to-date, the largest increase for any of the appliances AHAM tracks.

While other appliances have a life cycle of about 10 to 15 years, there is no such track record for microwave ovens. "Microwave ovens have not been around long enough to know what the cycle is and when the replacement market will gather steam," said Mary Gillespie, spokeswoman for the trade organization.

Discounters Take One-Third of Small Electrics Sales

(Continued from page 105)
els consumers said they expected to pay for a unit. While many discounters are trying to keep microwave oven price points down, the highest concentration of shoppers—35 percent—said they expect to pay $300 or more for a unit.

Trade-up models are certainly what a large number of shoppers are looking for, and more service and guidance is probably preferred for such a high-ticket purchase. The mean dollar price consumers expected to pay was $245.34.

The study also indicated that about one-third of the time the microwave oven shopper is also looking to buy other appliances as well.

Of those who said there was a chance they would buy a microwave oven during the next year, 40 percent said they might also buy a toaster oven; 38 percent said they might buy an iron; 37 percent said they might buy a hair dryer; 30 percent were considering a food processor purchase; 29 percent said a vacuum cleaner might be on their shopping list; and 26 percent might also buy an electric shaver.

Consumers Purchasing and Spending Plans for Small Electric Appliances

Product	Percent Who Plan To Purchase In Next Year	Average Expect To Spend*
Coffee Maker	15%	$ 41
Microwave Oven	15	245
Hair Dryer	10	20
Vacuum Cleaner	10	218
Iron	9	30
Electric Shaver	8	37
Food Processor	8	79
Blender	6	38
Fan	6	43
Toaster Oven	6	46

**Includes those with plan to purchase in next 12 months plus those who do not have plans to purchase.*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

In contrast, those interested in buying a toaster oven had little interest in the other appliances examined. While 31 percent of those interested in buying a toaster oven were also considering the purchase of a fan, there was less than a 30 percent response rate for all other small electrics listed.

Other purchasing inclinations include: 67 percent of those looking to buy a vacuum cleaner were also in the market for a blender; 42 percent of those who might purchase a blender wanted to buy a fan, and vice versa; roughly 40 percent of those who plan to buy a hair dryer also would like an iron, and vice versa.

The predominant price range shoppers were expecting to pay for small appliances was $20 to $40. More than half of all consumers questioned said this was the range they expect to pay for coffee makers, fans, blenders, irons and electric shavers. Expected price ranges on toaster ovens, food processors and vacuum cleaners were scattered, with some concentration at the high end and the low end.

For food processors, for example, 27 percent expected to pay between $40 and $60 while another 28 percent would pay between $70 and $125. While 32 percent would also pay $70 to $125 for a vacuum cleaner, 21 percent anticipated paying $300 or more.

Where consumers would choose to shop shifts considerably when including only those respondents who were planning to purchase a unit within the next year.

Twenty-seven percent of consumers who plan to buy fans within the next year said they would go to K mart for the purchase, the highest response rate for any individual chain listed (which included K mart, Wal-Mart, Target, Venture, Zayre, Sears, Montgomery Ward, JCPenney, Service Merchandise and Consumers Distributing). K mart also received the highest mentions for irons (16 percent) and hair dryers (22 percent).

As K mart perfects its year-old small appliances centralized merchandising system, these figures could climb. The company has already reported strong sales gains as a result of the system which ensures that all U.S. K mart stores are fully stocked with all appliances. Replenishment of the category is based on a yearly plan per store.

Wal-Mart was the preferred chain when it came to food processors and blenders, (14 percent and 17 percent) All warehouse club operators combined were a close second for food processors with 12 percent of those who plan to buy in the next year opting for those merchants. Sears and catalog showrooms were third with 11 percent each for food processors.

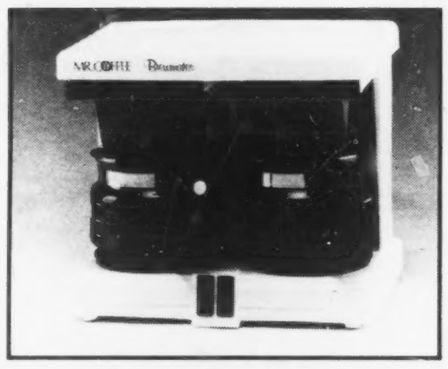
NEW PRODUCTS

High-Tech Denture Care

DentaPlus, Somerville, Mass., has introduced a denture care system combining electrosonic technology, cleansing tablets and fresheners. Equipped with two tanks with two sonic cycles, the unit flushes food and debris off dentures in one tank and freshens them in the other. The system includes a one-month supply of both cleansing tablets and freshener concentrate.

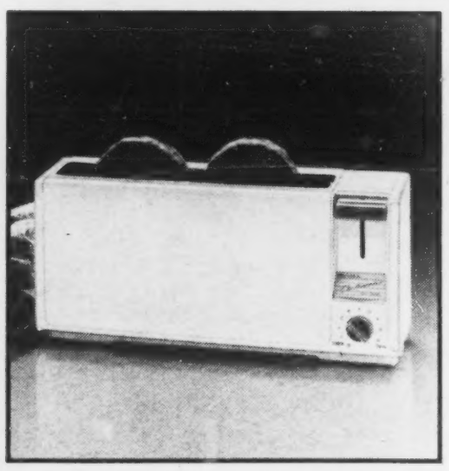
Two-Way Ultrasonic Humidifier

Soundesign, Jersey City, N.J., has introduced an ultrasonic humidifier with two decorative panels, one for adults and one decorated for a child's bedroom. The "Summer Circus" panel for children features several cartoon-like characters as well as a window indicating how much water remains in the tank. At full intensity, the humidifier vaporizes its entire gallon-and-a-half tank of water in 15 hours. Suggested retail price is $79.95.



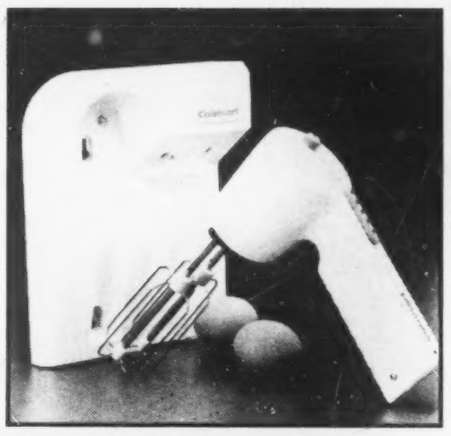
Brewmates

Mr. Coffee, Bedford Heights, Ohio, has introduced "Brewmates," a twin coffeemaker. The unit's design enables users to prepare four cupfuls of regular and decaffeinated coffee at the same time. Brewmates features two indicator lights to show that the units are on and two thermal fuses to prevent overheating.



Wide-Slot Toaster

New from Rival Manufacturing Company, Kansas City, Mo., is an electronic toaster with extra-wide slots. With one bread slot measuring 9⅞ inches long by 1⅜ inches wide by 5 inches high, the toaster accommodates bagels, onion rolls, frozen waffles and other convenience foods. The unit includes a tilting crumb tray for easy cleaning. Suggested retail price is $37.95.

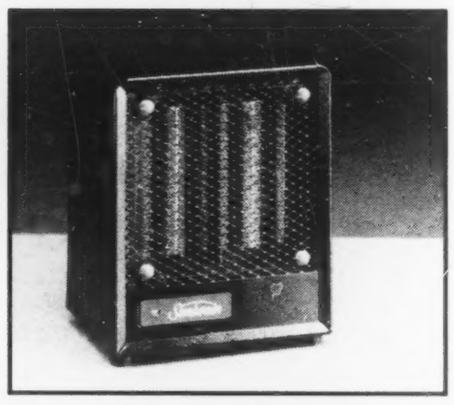


Cordless Mixer

Cuisinarts, Greenwich, Conn., has added a portable, cordless hand mixer to its line of cooking equipment. The unit features long, wire-like, stainless steel beaters designed to mesh tightly for fast, thorough mixing. Suggested retail price is $65.00.

Cordless Trimmer

New from Andis Company, Racine, Wis., is a cordless beard and mustache trimmer. Powered by two AA batteries, the trimmer is part of a grooming system that includes a blade guard, blade brush, comb attachment, styling comb, stand, trimmer oil and batteries.



Heat Cube

Northern Electric, Chicago, has introduced the portable Sunbeam Heat Cube. Featuring an automatic temperature control and a washable air filter, the unit produces heat using 1,500 watts of power.

Quick Coffee

Bunn-O-Matic, Springfield, Ill., has introduced an automatic drip brewer that makes coffee twice as fast as other brewers. With the stainless steel reservoir maintaining water temperature at approximately 200°F, the unit brews a 48-ounce batch in less than three minutes. Suggested retail price is $59.95.

How Best Was Bought

(Continued from page 1)
to recognize the cataloger's latent value.

Months earlier, British investor Gerald M. Ronson, through his Bearclaw Group, had acquired an 8.3 percent stake in the cataloger, while Pacific Financial Research, a Los Angeles investment group, had garnered a 7.2 percent share.

These purchases, and speculative investment by other buyers, were mainly made after Best's stock plunged from a pre-Black Monday high of around $18 to $7.50 at the end of that year.

Best's stock had reached the $18 level as a result of the turnaround that was being engineered in the mid-'80s by Huntley, then president, William F. Costello, then executive vice president, and a revitalized management.

In that revamping, Best sharply cut costs, strengthened its merchandising and operations and established sophisticated management information systems that were later to be marveled at by potential buyers. During the LBO negotiations, Best was able to quickly and fully provide whatever information any takeover firm wanted.

The result, which made Best a potential LBO target, was a slight drop in sales from $2.1 billion in 1986 to $2 billion in 1987 but a massive bottom line turnaround—from a $25.6 million loss in 1986 to a $30.5 million profit in 1987.

Huntley and Costello, who was promoted to president in March 1988, were justly proud of Best's accomplishments. That month during a presentation to the press and security analysts, they were asked about a potential takeover. They said that their main concern wasn't to entrench management but to increase shareholders' value—the stock was then trading in the $10 to $11 a share range. Their long-term goal was to boost Best's then 7.7 percent return on equity and reach its historic 14 percent to 15 percent ROE.

Little did they realize that before the end of the year stockholders would be in a position to sell their shares for a 150 percent premium from its then current stock price.

Shortly before Prospect made its public announcement in mid-August 1988, Huntley and Costello were approached by two investment groups—neither of which were Adler & Shaykin—interested in a possible LBO. While those probes were rejected, they had an important impact on Best executives: Together with Prospect's subsequent public play, the trio of unsolicited LBO offers clearly indicated that Best couldn't idly stand by while investment firms and speculators eyed the firm.

Best's 14D-9 filing on Oct. 11, which advocated that shareholders accept Adler & Shaykin's offer, noted that in mid-August 1988 Huntley recommended, and the board of directors appointed, a special committee to evaluate the "financial alternatives available to the company."

The committee's three members were independent directors with no financial ties to Best: Dr. Frank S. Royal, Thomas E. Capps, head of a utility holding company, and John W. Snow, chief of a transportation firm. They, in turn, retained Merrill Lynch Capital Markets and Wheat, First Securities as financial advisors and Wachtell, Lipton, Rosen & Katz as legal counsel.

Huntley and Costello didn't participate in some of the board's deliberations as they were seen as possible equity participants in an LBO. But they and Best's senior management provided input to the committee.

The committee's financial advisers concluded that only an LBO would produce the maximum return to shareholders. They rejected such alternative moves as a restructuring and special dividend, buying another company, or even selling out to another retailer. The committee felt any of these steps would provide less return to shareholders.

Management, meanwhile, didn't propose its own LBO. Huntley, a little over a year short of his 60th birthday, had decided he didn't want to devote the next several years of his life to the intensive activities that would be needed to make such a move successful. No one else was in a position to lead a management LBO.

A management "poison pill" adopted in December 1987 wasn't designed to stop a takeover, only force any interested party to negotiate with the board. Top executives, meanwhile, were protected by a golden parachute that gave them 200 percent of their salary and bonuses if control of the company changed hands and their responsibilities were diminished or they were fired. Best hasn't paid any bonuses for a number of years but has provided stock options which subsequently made a number of executives very wealthy, possibly millionaires.

On Aug. 29, 1988, the search for a friendly purchaser began, with Merrill Lynch contacting "several" LBO investment firms and "several" retailers. Twenty days later, one of these firms—not Adler & Shaykin—made a $21-per-share bid for Best Products.

That offer was quietly rejected—much to the surprise of a number of security analysts when it was publicly disclosed on Sept. 26. Many analysts had valued Best shares as worth in the low $20s and feared that there wouldn't be any higher bids. Some analysts even felt that Best didn't intend to make any deal.

Best's financial advisors, however, said the offer was "inadequate" to the shareholders. They knew that bidders were looking at Best's hidden values, its real estate and sophisticated management information system that could be leveraged in a number of ways.

But the rejected offer had a positive effect: it propelled Best's stock, which was trading at $15 a share before the bid, to a new high of just under $20 a share and set a floor price for future bidders.

With the preliminary scenes over, the stage was set on Oct. 4 for the short final act: picking the winning offer.

All the interested parties were told to submit offers on Oct. 7, with the finalist then to make personal presentations for the final evaluation by the board and its financial advisors by midnight.

Huntley attended this meeting, the 14D-9 filing noted, as he had "irrevocably committed not to participate as an equity investor " in any acquisition, removing any possible conflict of interest. Costello hadn't made a final decision on whether to make any equity investment and did not attend.

The final scene had five players, including cataloger Service Merchandise, Wesray Capital Corp., a well-known LBO specialist, and Adler & Shaykin, which made the highest offer at the beginning and end of the day.

No one knew any other firm's offer, so the bidding didn't become an auction. After the first presentation, the players were allowed to raise their offer and Adler & Shaykin, realizing its competition, increased its bid by a few dollars to the winning $27.50 a share.

Service, identified only as "another bidder" in the 14D-9 filing, indicated it was ready to increase its offer, "which was significantly lower" than Adler & Shaykin's "by an unspecified amount" if it received "certain additional detailed confidential information."

The board rejected this request because Service was "a direct competitor," the information could prove "harmful" to Best if Service wasn't the winning bidder and the time needed to supply the information would have meant losing "the opportunity" to accept Adler & Shaykin's offer. The board also questioned Service's ability to raise the financing for an LBO.

At the final judging, Adler & Shaykin was represented by its top executives, Fred Adler, a real estate expert who recognized the potential of Best's holdings, and Leonard Shaykin.

Those real estate holdings include Best's direct ownership of approximately 25 showrooms, with about 85 percent of the sites carried on the books as either owned or under long-term capital leases.

Was the deal really the best for Best's stockholders? They received $27.50 a share, much more than anyone anticipated when the Prospect Group made its announcement or the $21-a-share bid was rejected. But what if Best's management had boosted the ROE to the historic 14 percent to 15 percent high, what then?

"Everything would have had to go just right to achieve this goal, and it would have taken several years for the stock's price to reach $27.50. The bottom line is that shareholders received that price now," one source said in reviewing the drama.

Megastores Grow

(Continued from page 3)
try. Fuente said he intends to continue expanding the company over the next five years.

Other 1989 growth plans:

- Arvey Paper & Office Products plans to grow from 36 to about 42 stores;
- Staples, with 22 stores, expects to have about 39 units;
- BizMart, Arlington, Texas, expects to grow from 10 to 28 stores, half in existing markets and half in new markets;
- Office Club, which became a publicly held firm last month, plans to add 12 stores this year to its current 15;
- HQ Office Supplies Warehouse, which will have four stores in operation by February, plans to add between six and eight units;
- Office America, Richmond, Va., plans to grow from five units to 15;
- Office World, Great Neck, N.Y., expects to add as many as nine stores bringing its total as high as 13;
- OfficeMax, Cleveland, Ohio, now with three stores, expects to grow to between 12 and 15 stores;
- Jaffe's, Miami, with 10 stores, plans to add 10 more;
- Office Warehouse, Virginia Beach, Va., which opened its first store on Dec. 27, expects to add 10 more.

HQ Office Supplies

(Continued from page 3)
The furniture department, which will include both RTA and preassembled pieces, will comprise a 3,000-square-foot to 4,000-square-foot area in the center front of the store behind the checkouts. It will be a "low profile" area compared to other higher fixturing in the store and will act "as a traffic getter," said Tukey.

Unlike many megastore operators, HQ will feature a full office machine department, complete with personal computers. It also will maintain its own software department, stocked with 200 to 300 titles.

Tukey, like other top executives at HQ, including McNulty, was attracted to the office supply business from other retail sectors.

"The profile of the industry is very ripe," said Tukey, formerly senior vice president, general merchandise manager at HomeClub, the home improvement warehouse division of Zayre Corp.

Other top executives include: Chet E. Howard, executive vp, chief financial officer and secretary of the company, who came to HQ from Sports Authority., a sporting goods chain.

George Pursglove, vp and gmm, is also from HomeClub.

More Stein Marts

(Continued from page 1)
months ended Dec. 31, 1987, documents obtained by *DSN* revealed. In the 12-month fiscal year ended Jan. 31, 1987, it earned about $2.5 million in pretax operating income on sales of more than $93 million. In 1987, Stein Mart shifted to a calendar year reporting period, so full-year figures were unavailable for 1987.

Judging from its Nashville store, Stein Mart devotes about 80 percent of selling space to discounted men's and women's apparel, including such designer brands as Ralph Lauren for men and women and Ocean Pacific for men and boys. The balance of 20 percent is split among shoes, giftware and domestics.

Stein Mart is a family corporation headed by chairman Jake Stein, who founded the chain in 1934 with his wife Freda. Their son, Jay Stein, became president in 1981, and his wife Cynthia is corporate secretary.

The elder Stein, 77, owns 20 percent of company stock and his son, 43, owns 80 percent. Stein Mart shifted corporate headquarters to Jacksonville from Greenville, Miss., in 1984. Its single distribution center also is located in Jacksonville.

Prange Way Opens

(Continued from page 3)
Sommer told *DSN* that "acquisitions of this nature are ideal for us." He added that the company also plans to open new stores in 1989.

Prange Way posted $150 million in sales in 1987, and Sommer projected a 10 percent sales increase in 1988. Sommer said the year just past "is the best performance we've ever had." He attributed the strong results to a better in-stock position throughout the year and a continued focus on the chain's niche businesses, which include "back-to-basics soft lines and our lifestyle furniture department." He added that the chain's new big and tall men's wear department "exceeded sales expectations."

The reconverted Schultz's units are about 65,000 square feet, which is the size of Prange Way's prototype, first introduced in 1982. Prange Way also has several 75,000-square-foot and 85,000-square-foot units, but the future is in the smallest size.

The seven new openings were redesigned to the prototype, with a triple racetrack. Soft goods (apparel and shoes), to the left of the entrance, represent 40 percent to 50 percent of selling space.

DISCOUNT STORE NEWS
(ISSN 0012-3587), is published biweekly—every other Monday—24 times a year except issues of April 24 and Aug. 7, which are published every third week; monthly in December—by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscriptions are available at no charge to qualified retailers and wholesalers. Paid subscriptions are available to manufacturers and their reps, schools, libraries, govt. agencies and all others—one year, $35; Canada: one year, $37; Foreign subscriptions: Airmail only, $175 (U.S.$) per year. Single copy rate, $2, except annual census issue, $20.

Second-class circulation postage paid at New York, N.Y., and additional mailing offices.

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Vol. 28, No. 1 Jan. 9, 1989